STATEMENT OF
THE AMERICAN FARM BUREAU FEDERATION
TO THE
LIVESTOCK AND HORTICULTURE SUBCOMMITTEE
HOUSE AGRICULTURE COMMITTEE
REGARDING
NATIONAL DAIRY POLICY

Presented by

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Mr. Chairman, members of the Committee, my name is John Lincoln. My wife, Anne, and I operate Linholm Farm in Bloomfield, New York. Lincoln Farm is a Registered Holstein Dairy Farm and the milk produced is marketed through Upstate Farms Milk Cooperative. I am President of the New York Farm Bureau and serve on the Board of Directors of the American Farm Bureau Federation.

The American Farm Bureau Federation represents more than five million member families in all 50 states and Puerto Rico. It is significant to note that milk is one of the very few agricultural commodities produced in all fifty states and Puerto Rico, and that Farm Bureau has a major presence in each state and with milk producers across the country.

We appreciate the opportunity to once again discuss Farm Bureau's recommendations for the future of dairy policy. While we presented some details in relation to dairy on February 28, 2001, we believe that the dairy sector provides unique situations compared to other sectors of agriculture, and therefore requires unique solutions. Since milk is highly perishable, does not store easily, and requires special handling, farmers must market their product virtually every day of the year, regardless of the market price at that moment. This has, generally speaking, required more government intervention than required of most other commodities.

Since the enactment of the Agricultural Act of 1949 milk prices have been supported by the government. Since 1981 that support level has been established by Congress either at specific-minimum price levels, or to a formula tied to anticipated Commodity Credit Corporation (CCC) dairy product purchases. Since January 1, 1999 the support price for milk containing 3.67 percent fat has been $9.90 per hundredweight. The current program is scheduled to end on December 31, 2001.

EXTENSION OF THE DAIRY PRICE SUPPORT AT $9.90

It is imperative that the dairy price support be reauthorized at $9.90 per hundredweight prior to October 2001. This would make the dairy program consistent with other commodity programs and maintain a safety net for dairy producers. The program provides a standing offer to purchase butter, powder, or cheese if market prices are less than established levels that would allow processors to pay producers the support price. The dairy price support program should be extended with a support price of $9.90 per hundredweight.

A related issue is the butter-powder "tilt." Prior to 2000 this issue did not pose much problem for the dairy industry. Such an adjustment would have severe negative consequences on total dairy producer pay prices and total dairy farmer income. USDA could, as they have done in recent years, purchase substantial amounts of nonfat dry milk (NDM) but no butter under the dairy price support program. This usually prompted USDA to adjust the relative CCC purchase price for butter and nonfat dry milk by lowering the CCC purchase price for nonfat dry milk and raising the corresponding butter purchase price to keep the combined support equal to $9.90 per hundredweight.

However, the new federal orders effectively changed the way the price support and federal order programs interacted. The new formulas include the following: 1) a Class IV price computed directly from butter and nonfat dry milk prices; 2) a Class II price linked directly to the Class IV price; 3) and Class I prices driven by the higher of Class III and Class IV. The recent result has been that Class IV has been driving all but Class III prices. This makes the majority of producer income directly tied to butter market prices and the CCC purchase price for nonfat dry milk (NDM). As a result, dropping the CCC purchase price for nonfat dry milk would quickly reduce Class I, Class II, and Class IV prices by about the same amount, and the all-milk price would drop by about 60 percent of that amount. Therefore we ask that the butter-powder tilt not be adjusted when the dairy price support program is extended.

The cost to producers if the tilt was adjusted would potentially be $850 million annually. For example, a reduction in the CCC purchase price for NDM of 10 cents a pound would reduce average milk prices received by U.S. dairy farmers by about 52 cents per hundredweight. At the current level of milk marketing, this would reduce U.S. dairy producer income by about $850 million annually.

MILK PROTEIN CONCENTRATE

Farm Bureau supports S.847 and H.R. 1786, the Milk Protein Concentrate Dairy Trade Bill, as a solution to a portion of the dairy import problems. Since CCC purchases of nonfat dry milk are, in part, due to displacement of domestically-produced nonfat dry milk by unrestricted imports of milk protein concentrate and casein, reducing the price for nonfat dry milk would not result in CCC purchasing much less nonfat dry milk than they do presently. So reducing the price of nonfat dry milk would result in much lower prices for producers in the U.S. but would not save the government significant expenditures. Rather, the most effective means to reduce CCC purchases of nonfat dry milk would be to limit the amount of imports of protein concentrate and casein into the United States, as most other dairy product imports are limited.

When the U.S. established tariff rate quotas (TRQs) the technology to both produce and use concentrated milk proteins was in its infancy. Therefore, the United States did not create any significant tariffs or quotas for milk protein concentrate as was developed for other dairy products such as cheese, butter, and nonfat dry milk. As a result milk protein concentrate imports have risen more than 600 percent in the six years since the implementation of GATT. At the same time other nations are ensuring that milk protein products are not imported into their countries.

A recent GAO report documented the increase in imports. The report states:

> Milk protein concentrate imports increased rapidly from 1990 to 1999 from 805 to 44,878 metric tons -- and nearly doubled between 1998 and 1999. Six countries -- New Zealand, Ireland, Germany, Australia, the Netherlands and Canada -- accounted for 95 percent of the imports in 1999. Exporters of milk protein concentrates face few U.S. import restrictions: no quotas limiting the import quantity, low duties, and a broadly defined classification under which these products are imported that includes concentrates of any type if they contain 40 to 90 percent milk protein.

In addition, Farm Bureau supports H.R. 1016 which would prohibit the FDA from changing the cheese standards to allow the use of dried ultra-filtered (UF) milk concentrate in cheese making.

U.S. dairy producers have large investments in their cooperatives' manufacturing, processing and marketing activities in order to provide U.S. consumers with the finest quality cheeses. Allowing dried forms of UF milk to be used as an ingredient in cheese making could compromise the quality and nutritional component of our cheeses.

DAIRY COMPACTS

The Northeast Dairy Compact has been in place over three years. Dairy compacts establish a minimum price for fluid milk at the farm level through a regional pricing compact, thereby reducing volatility in the prices received by producers and also assuring that prices are at a level that will cover the cost of production for the majority of producers in the region.

The Compact Commission is comprised of producers, processors and consumers and has the authority to regulate the farm price of Class I (fluid) milk in the six northeast states covered by the compact. It establishes price regulation by way of a formal rulemaking process. All milk consumed in the compact-affected area is uniformly regulated. School lunch programs and other food programs have not been harmed due to price increases, and steps are in place to control the supply if milk supplies increase in the compact-affected area.

The compact has paid over $135 million to nearly 4,000 dairy farmers in New England and eastern New York State. It is projected that if the farmers in the twenty-five states that have passed state compact legislation had been active members of an interstate-compact in 2000, they would have received over $500 million.

If the concept of "market oriented" includes producers getting their income from the market, the market sending price signals to producers and having a fair price to consumers, the dairy compact meets these standards. There are no government payments; the revenue is from the market. The Compact Commission that determines the compact price is comprised of consumers, processors and producers. The producers who have the most visible benefit from compact pricing are a minority of the members of the Commission and therefore are not in a position to drive the price.

Mr. Chairman, we realize this committee does not have jurisdiction over the dairy compact legislation, but the issue is very important to our dairy-producing members. Farm Bureau supports H.R. 1827 introduced by Reps. Hutchison, Etheridge, Sherwood and McGovern.

EXPORT PROGRAMS

Farm Bureau strongly believes that export markets and export development are vital to the growth of any commodity program. Dairy is no exception. The Dairy Export Incentive Program (DEIP) helps exporters of dairy products develop new markets and compete in markets where U.S. products are otherwise not competitive because of subsidized products from other countries. The annual U.S. DEIP limits on dairy products, as imposed by GATT, are 21,097 metric tones of butterfat, 68,201 metric tones of nonfat dry milk, 3,030 metric tones of cheese, and 34 metric tons of other dairy products. These numbers are frozen at current levels until changed by a new round of WTO talks. We recommend that DEIP be reauthorized at the maximum levels permitted.

The Market Access Program (MAP) uses funds from USDA's Commodity Credit Corporation (CCC) to help U.S. producers, exporters, private companies, and other trade organizations finance promotional activities such as consumer promotions, market research, technical assistance, and trade servicing for U.S. agricultural products. Farm Bureau encourages funding of the MAP program at $155 million.

The Foreign Market Development (FMD) program helps develop, maintains, and expands long-term export markets for U.S. agricultural products. Farm Bureau encourages funding of the FMD program at $33.5 million.

Farm Bureau also encourages that other food programs such as P.L. 480, also known as the Food for Peace program; the Section 416 (b) program, also known as the Food for Progress program, and the Global Food for Education Initiative all be funded in a manner that provides a consistent level of resources to make these programs effective on a long-term basis.

Related to export programs, Farm Bureau supports legislation that would change the Dairy Production Stabilization Act of 1983 to include an assessment on all dairy imports. This will help promotional and educational programs which are funded by producers and not at government expense.

ANIMAL HEALTH PROGRAMS

This past year we have seen heightened awareness of the problems and dangers that different animal diseases can have, not only on the livestock industry, but also on the consuming public. Such diseases such as Bovine Spongiform Encephalopathy (BSE) and foot-and-mouth disease can cause billions of dollars in direct damage to livestock and grain producers, and can have a deleterious affect on consumer buying of meat products. We encourage USDA to continue to prohibit imports of any dairy products from any geographic region that has not been determined by USDA to be free of foot-and-mouth disease. But there are several other steps that need to be taken immediately to ensure that U.S. livestock products and producers are protected from the horrific damages that disease can cause to the livestock and dairy industries

One step would be passage of the Animal Health Protection Act. We appreciate your support, Mr. Chairman and Rep. Peterson, on these issues and look forward to working with you to pass this important legislation this year. Several incidents recently have indicated the need for legislation that clarifies the actions that USDA can take to make sure that the agency can respond rapidly to control possible disease outbreaks, or more importantly, to prevent a disease outbreak. We cannot afford to make USDA wait through various court procedures while a possible disease is breaking out or spreading. It is imperative that USDA is able to act quickly and decisively to ensure that any possible disease outbreaks are quickly contained or prevented.

ENVIRONMENTAL ISSUES

Farm Bureau is extremely concerned about the costs that the proposed TMDL rules and the new proposed AFO/CAFO regulations will put on all dairy and livestock producers. The proposed rules will add a great deal of cost to each and every producer in the United States. Producers cannot receive any return on these investment costs, making it even harder for U.S. producers to compete with producers in other countries who do not face these increased costs of production. The proposed rules, according to EPA, are aimed at correcting problems on less than two percent of America's waters. Farm Bureau is very concerned that these regulations will exact a heavy cost from U.S. dairy and livestock producers while having an extremely small benefit to the rest of society.

Mr. Chairman, Farm Bureau appreciates the opportunity to testify on these issues important to our dairy producers today. We look forward to working with you as you craft a dairy title for the next farm bill.

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